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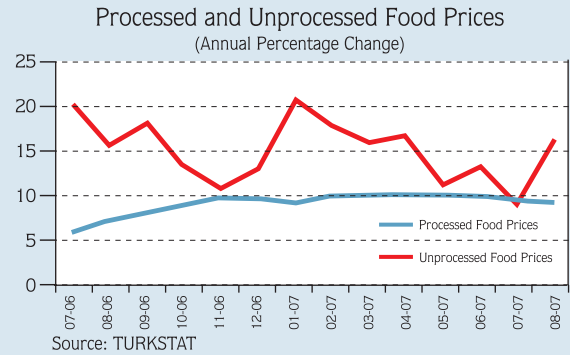
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DEVELOPMENTS ON THE INFLATION FRONT

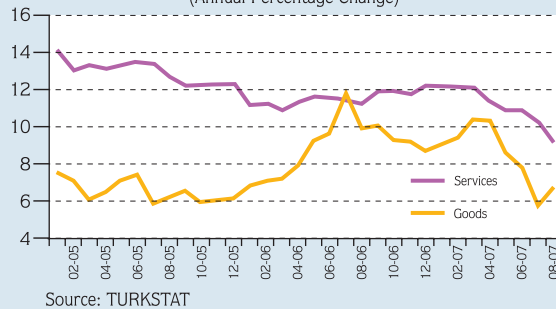
The disinflation process has become discernible in the second quarter of 2007. The monetary tightening implemented since June 2006 has led to a considerable slowdown in domestic demand and the demand conditions have increasingly supported the disinflation process.

Factors Affecting Inflation

- Unprocessed food prices have displayed a volatile pattern throughout 2007. However, temperatures above seasonal averages, water shortages and the resulting production losses will continue to affect food prices.
- Services prices have displayed a remarkable slowdown since the beginning of 2007.
- Prices of consumer durables have displayed a downward trend in recent months.
- Energy prices slowed down in 2007 compared to the last year.



Prices of Services and Goods
(Annual Percentage Change)



Supply and Demand
Developments

While private sector investment and consumption demand exhibit signs of recovery, external demand is moderating and aggregate demand conditions continue to support the disinflation process.

- Data on domestic sales of automobiles and commercial vehicles and various consumption

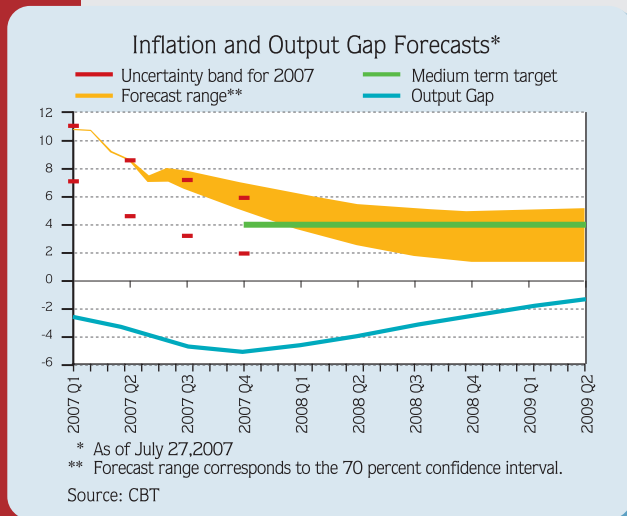
indices point to a recovery in private investment and consumption demand starting from the third quarter of the year.

- Investment spending displayed a moderate growth trend.
- In the first half of 2007, non-interest budget expenditures increased noticeably by 25.7 percent compared to the same period of 2006. This development indicates that public expenditures in recent months may have restrained the disinflation process. In this respect, measures that may be taken to achieve the program-defined non-interest budget targets should be implemented by reducing expenditures.
- The robust course of external demand and the competitive advantage brought by productivity gains are expected to support export growth in the near future.
- The uncertainty about the international commodity prices still remains as a risk factor for disinflation process.

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The European Union accession process and the implementation of the structural reforms envisaged in the economic program remain to be important for long-term stability.
 *

Financial Markets

- Despite the increasing periodic risk perception, interest rates of bonds have declined with the downward trend in inflation and the increasing demand of the residents abroad.
- In the second quarter of the year, the continuation of the tight monetary stance has resulted in the decrease of inflation expectations and the inflation uncertainty, which has supported the decline of long-term interest rates.
- The decisive stance of the monetary policy has also contributed to the decrease in medium and long-term real interest rates.
- The Central Bank of Turkey (CBT) withdraws excess liquidity from the market via overnight reverse repo and deposit transactions. Nevertheless, it has been observed that the recent upsurge in excess liquidity in the market may undermine the efficiency and flexibility of the liquidity management. Thus, it has been decided to issue liquidity bills along with current money market instruments. The first group of liquidity bills was issued on July 20, 2007 and the second group was issued on July 23, 2007. Furthermore, it has been stated that in consideration of the efficiency of liquidity management, the issue of liquidity bills will continue in the future, when deemed necessary.
- The CBT holds foreign exchange buying auctions in order to build up foreign exchange reserves in conformity with the functioning and core principles of the floating exchange rate regime. Yet, the CBT monitors the markets and acts depending on the developments in both the domestic and international markets. Consequently, the CBT may change the daily buying amounts with prior notice and also auctions may be suspended depending on developments pertaining to foreign exchange supply.



Monetary Policy and Risks

The downward trend in inflation is expected to continue in the upcoming period. In this respect, the medium term target of 4 percent is achievable.

- Elevated headline inflation figures of the past year, uncertainties regarding the food and oil prices, and the incomes policy in 2007 have contributed to the rigidity in inflation expectations. This constitutes a risk for wage setting behavior, and hence, for services inflation.
- Since inflation inertia is driven by structural factors, there are certain items in the service group, which cannot simply be explained by

backward indexation. Needless to say, these prices can hardly be influenced by monetary policy. The possibility that the rate of inflation in the rents item will continue to exceed the other services inflation items is considered as a risk factor against the disinflation process.

- Although domestic demand may partly recover in the second half of the year, aggregate demand conditions are expected to support the disinflation process due to the declining contribution of net exports and the government spending.
- Possible fluctuations in global liquidity conditions continue to pose risks to the inflation outlook. The inflation and growth outlooks for the developed economies are still not clear, and thus, international financial markets continue to be sensitive to new data releases. The CBT closely monitors the developments in the international markets.
- The role of fiscal policy and structural reforms are also critical in this process. In this respect, the European Union accession process and the implementation of the structural reforms envisaged in the economic program remain important for long-term stability.



2nd OECD WORLD FORUM ON STATISTICS, KNOWLEDGE AND POLICY

OECD's "2nd World Forum on Statistics, Knowledge and Policy" was organized in Istanbul on June 27-30, 2007. In the forum, Governor Yılmaz made a speech entitled "Financial Security and Stability". In his speech, Governor Yılmaz explained how central banks recognize financial stability and how they are reorganizing themselves in order to monitor financial systems and to develop new analysis techniques. He also spoke about the Turkish experience and the recent developments in the Turkish financial markets.

To find out more: <http://www.tcmb.gov.tr> (Governor's Remarks)



THE CONFERENCE FOR THE 75th ANNIVERSARY OF THE CBT

The CBT held an international conference on the occasion of celebrating the 75th Anniversary of its establishment in Ankara. The President of the European Central Bank, Jean-Claude Trichet participated in the conference as the guest of honor and delivered a speech on "Charting a New Global Landscape: The Growing Impact of Emerging Markets on the World Economy". In his opening remarks, Governor Yılmaz mentioned the significant highlights of the CBT's history. Many participants including governors and senior officials from other

central banks, representatives from foreign economic institutions, national and international think tanks, financial sector, universities and the media took part in the conference.

To find out more: <http://www.tcmb.gov.tr> (Governor's Remarks)



INFLATION REPORT

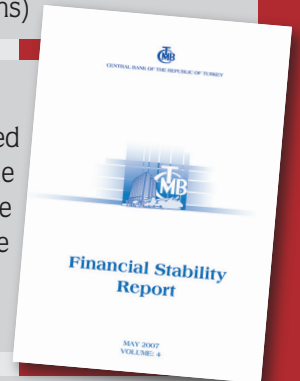
Inflation Report 2007-III was released with a press conference on July 27, 2007. The Report, examines the recent macroeconomic developments in detail, including inflation and expectations, aggregate supply and demand conditions, financial markets and public finance developments. Medium-term projections including forecasts and risk components are examined in detail, too. Furthermore it is highlighted in the Report that inflation will continue to decline in the medium term, and the measured easing of the policy rates depends on the incoming data, as well as information and risks that may affect the path of monetary policy in both directions.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)

FINANCIAL STABILITY REPORT

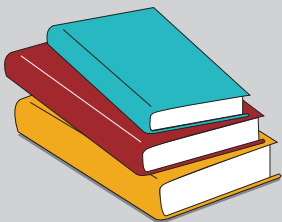
The biannual Financial Stability Report was published on May 31, 2007. In the Report, it is stated that the fluctuations in May-June of 2006 have been an important experience indicating the resilience of both the Turkish economy and financial institutions. The Report also mentions that the structural reforms as well as the timely and effective monetary policy decisions have limited the impact of the global liquidity shock on the economy and financial institutions.

To find out more: <http://www.tcmb.gov.tr> (Publications/Periodic Publications)



APPOINTMENT OF OFFICIAL SPOKESPERSON

Since the Assistant General Director of the Communication Department, Mr. Aydın Özmen, was appointed as the Representative of New York Branch, the Director of Public Relations Division, Mr. Cihan Aktaş has started to conduct media relations, as of 13 June 2007, in order to maintain continuous and strong relations with the press.

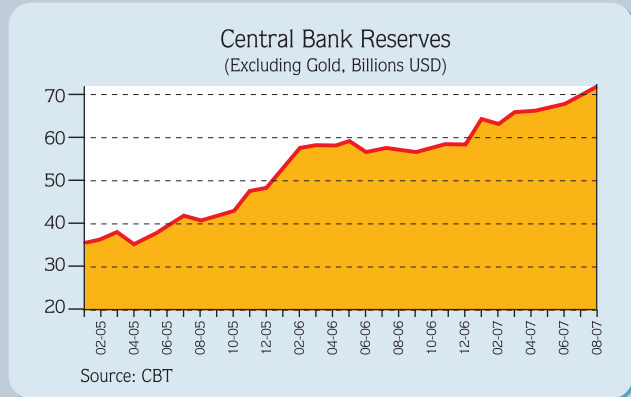
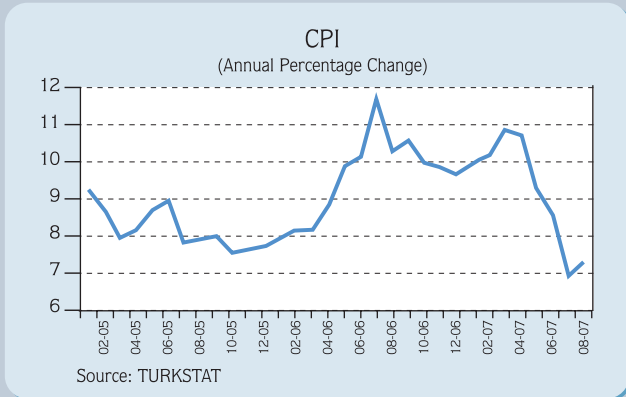
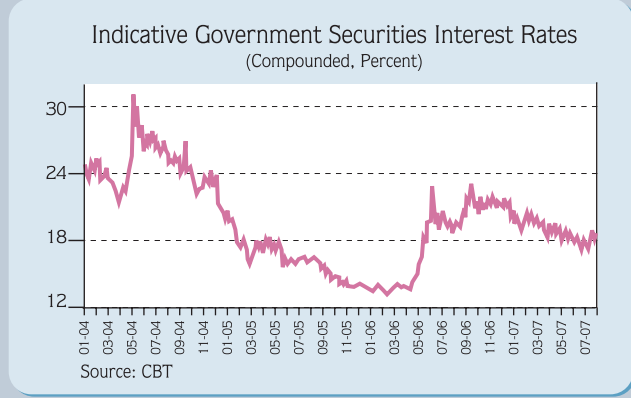
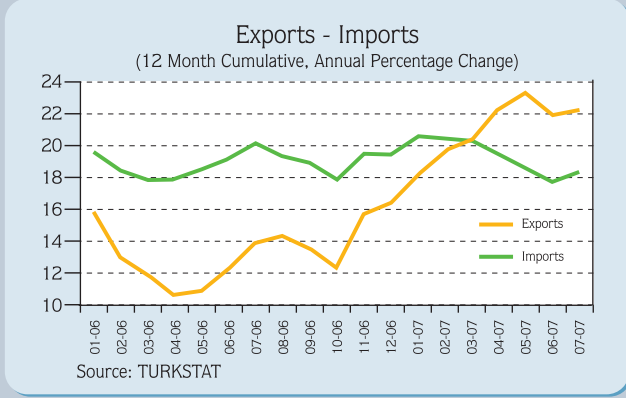


WORKING PAPERS

- Interest Rate Pass-Through in Turkey (Halil İbrahim Aydın, Working Paper No.07/05, June 2007)
- The Monetary Transmission Mechanism in Turkey: New Developments (Erdem Başçı, Özgür Özel, Çağrı Sarıkaya, Working Paper No.07/04, June 2007)

To find out more: <http://www.tcmb.gov.tr> (Publications/Research Papers)

AT A GLANCE



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The Music CDs sponsored by the CBT

Within the context of social responsibility projects, the CBT sponsors music CDs to introduce contemporary Turkish music and musicians to the world. The CBT embraces the promotion of a wide range of musics such as classical, traditional, jazz or Turkish classical music by launching CDs of the Turkish musicians performing these types of music. To this end, the CBT sponsored the CDs "The Concerto for Kanun" and "Violoncello Concerto" of Ferid Alnar and a CD prepared for the 100th Anniversary of Birth of Cemal Reşit Rey. The CBT also released an audio CD set entitled "The Yunus Emre Oratorio", on the occasion of the 80th Anniversary of the Republic of Turkey, in collaboration with the Bilkent University, Ahmet Adnan Saygun Center for Music Research Education. Recently a classical Turkish music CD has been launched by the CBT with the contribution of Ministry of Culture and Tourism. On the CD, the Ankara State Classical Turkish Music Choir under the lead of Conductor Uğur Bayrak performs tracks of leading Turkish composers of 18th and 19th century.

To find out more: <http://www.tcmb.gov.tr> (Films and CDs)



CBT Interest Rates*	Borrowing	Lending
Overnight (%)	17.50	22.50
CBT Exchange Rates*1	FX Buying	FX Selling
Dollar	1.2958	1.3020
Euro	1.7869	1.7955

Central Bank Foreign Exchange Reserves (As of August 31, 2007, Billion USD)	71.87
CPI (Annual % Change, August 2007)	7.39

* As of September 10, 2007, ¹Indicative